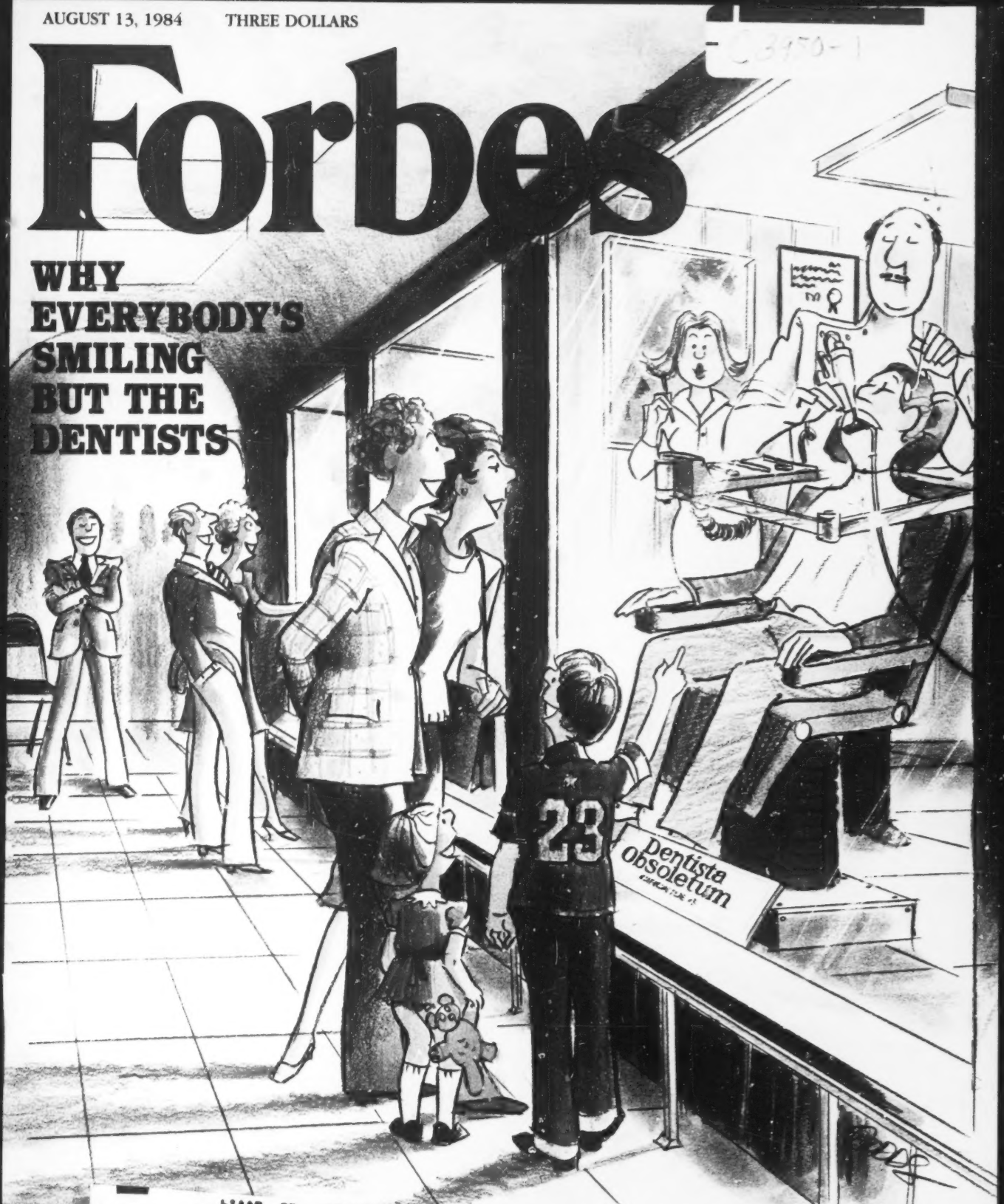
AUGUST 13, 1984 THREE DOLLARS

Forbes

WHY EVERYBODY'S SMILING BUT THE DENTISTS



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Forbes

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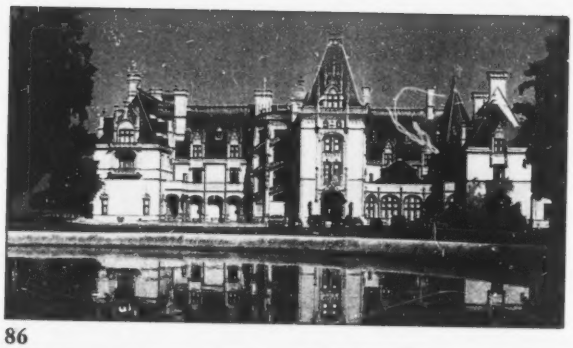

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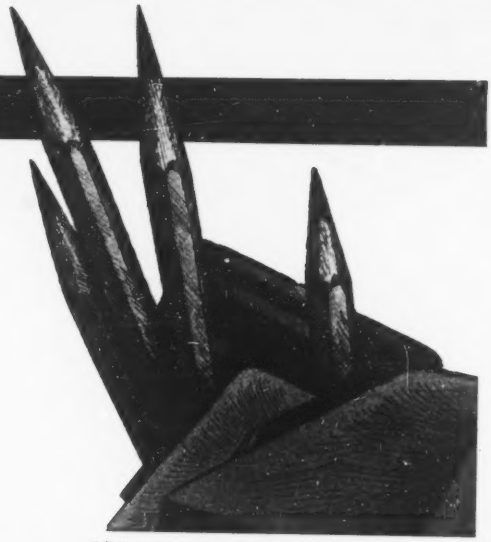

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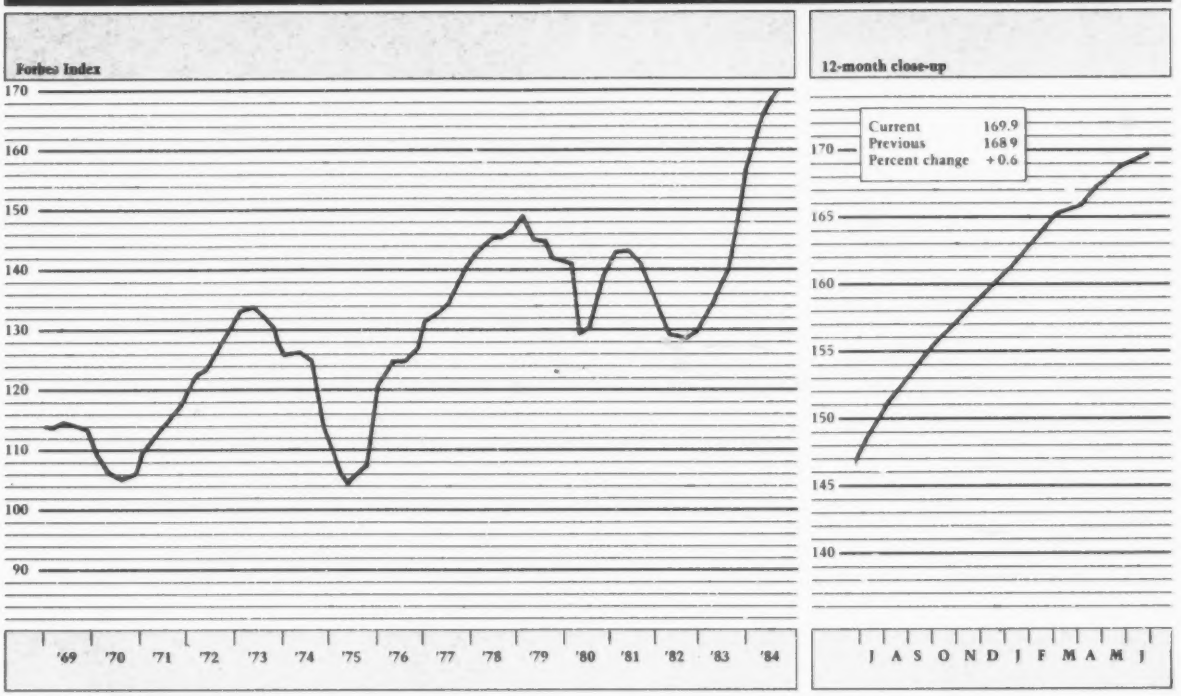
Cover illustration: Glenn Dodds

The Forbes Index



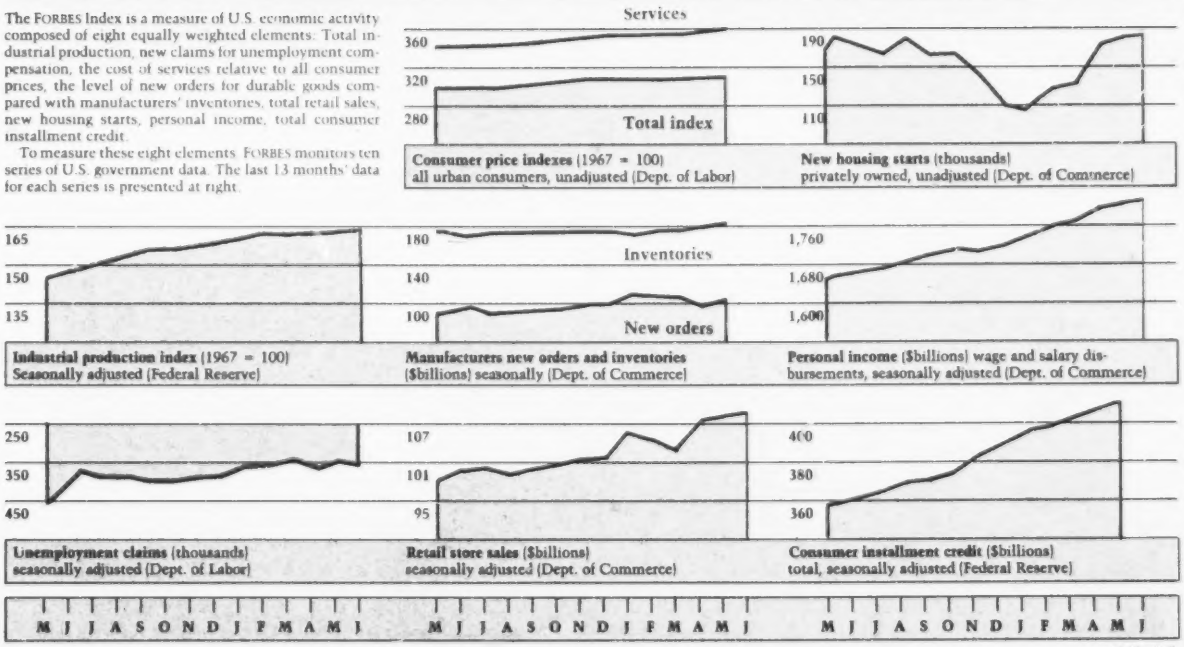
Back on the upward path. After a slowing in the previous two weeks, the Forbes Index is gaining speed again. The Index has been rising steadily since the fall of 1982. This time the 0.6% gain stems from healthy increases in three key components—rather than the statistical aberrations that boosted results last period. Industrial production, retail sales and housing starts are all up smartly.

With the recent gain, industrial production has increased nearly 5% since the beginning of the year. Even though housing starts are growing more slowly than they were in January, the pace of new building has risen smartly from last month. Retail sales, meanwhile, are on an even stronger upward trend. Over the past 12 months, they are up by almost 10%.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements FORBES monitors ten series of U.S. government data. The last 13 months' data for each series is presented at right.



Shedlin Doll

Here are the principal players in the generic drug game. Note: lots of opportunity here, but plenty of competition, too.

Life on the fast track

By Richard Phalon

GRANTED THAT the spread of generic drugs is bad news for established drug companies. For whom is it good news?

Mylan Laboratories and Zenith Laboratories (FORBES, *Dec. 6, 1982*) are the biggest of the four publicly owned generics companies in a highly fragmented industry that moved about $800 million worth of prescription drugs over pharmacy counters last year. Some trade-name producers (Pfizer and SmithKline Beckman, among others) work the generics side of the street as well as their own. Then there are 30 or so private manufacturers.

The play is keyed to high-margined brand-name drugs that are coming out from under patent protection: Merck's Indocin, for example, a formerly exclusive antiarthritic drug that is now being sold at 30% to 50% below the former price under private label and its chemical name of indomethacin by Mylan. Or the diabetes drug Diabinese, on which Pfizer's nicely profitable lock will run out in October. Bolar Pharmaceutical and several other generics producers, anticipating the patent runoff, will soon be selling the drug under its chemical name of chlorpropamide.

Growth is the name of the game, which is a major reason the stock market puts pricey multiples of up to 47 times earnings on the four pure plays in generics *(see table)*. As recently as nine years ago, generics accounted for only 9.5% of prescription drugs sold in the U.S. Now they amount to at least 15% and are rising rapidly. Last year retail prescriptions filled by generics expanded 13%, while the prescription market as a whole grew only 3%.

The impetus for that growth comes from a number of forces: federal, state and insurance company efforts to put a lid on rising medical costs, as well as the marketing muscle of cost-conscious discount drug chains, which now account for more than half of all the nation's pharmacies.

The generics push is biting into the profit margins of some of the industry's old-line, trade-name producers. Upjohn Co., for example, recently cut the price of Motrin, an anti-inflammatory drug, by as much as 35%. Why? Because it is under attack by the cut-rate branded version put out by Boots Pharmaceuticals Inc , a British firm.

Other majors are in the same fix. Merck has lost control of Indocin, whose patent expired in 1981, and is beginning to feel the heat on Aldomet, a cardiovascular drug that falls into the public domain in September. American Home Products is about to lose its patent protection on both Inderal, another bestselling cardiovascular item, and Ativan, an antianxiety drug. AHP's sales on both in the U.S. amounted to at least $400 million last year. The list goes on.

Jim Pozarik/Picture Group

Zenith Labs' Leonard
"Fustest with the mostest" wins every time.

The generics companies must always be ready to move fast once a drug is up for grabs. The trick is to spot promising products two or three years before they come off patent, push through whatever new testing is required by the FDA and put enough inventory together quickly to cream the market before the competition picks up the beat.

Take Pittsburgh-based Mylan Laboratories, which is riding high on the leverage of what used to be Merck's Indocin. "We've shipped an awful lot of product," says Roy McKnight, Mylan chairman. "We got FDA approval the day after Easter, and in the first week we moved $1.5 million worth. We've sold a total of $6 million worth so far, and there will be a lot more before we're through."

Getting a lot of new

Anonymity pays

By moving fast, these four small firms make big money in marked-down drugs, as returns on equity and net margins show.

	1983 sales (thou)	Net/ sales	Recent price	Per-share earnings	P/E	1983 ROE
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	32,101	7.0	14	0.73	19	16.9
Bolar	24,992	19.6	26⅜	1.15	23	30.6
Par	11,519	14.0	9¾	0.52	18	47.1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	32.3

*Sales and income figures as of end of fiscal year 1984.

The four largest old-line drug companies still show healthy returns, but they are outstripped by the generics.

	1983 sales (thou)	Net/ sales	Recent price	Per-share earnings	P/E	1983 ROE
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	3,917,005	10	43⅝	3.00	14½	24
[illegible]	3,250,000	14	30¼	2.73	11	22
Merck	3,246,139	13	80⅛	6.10	13	20
[illegible]	[illegible]	11.5	[illegible]	[illegible]	[illegible]	23.8

product out the door fast is so important because the big profits are reaped in the early stages of introduction, before the price-cutting starts and turns what had once been a proprietary item into a commodity. In fact, Mylan reasonably can hope to reap the first dramatic benefits of indomethacin for only a matter of months.

Zenith Laboratories (it's also licensed on indomethacin) and its roller-coaster ride with metronidazole, an anti-infective, shows how ferocious the price-cutting can get, and what it can do to profit margins. Within a year after Zenith got the go-ahead on the drug, the generic price had been slashed by 57%. In those first palmy days of 1982 metronidazole generated $6.4 million, or 22% of Zenith's sales. A year later the drug accounted for only 14.5% of sales, or $4.6 million, and Zenith's earnings dropped from $3.6 million to $2.5 million. The early part of this year was no better. "The life cycle of these situations," says President James O. Leonard in a quiet bit of understatement, "is likely to be short."

Aggravating that problem is another: All the publicly owned generics have a relatively narrow product line. The only way to compensate for the price-cutting endemic to the industry is to: (a) sell more units of the same drug, (b) add new products, (c) get out of the line of fire into less competitive market niches or (d) all of the above.

Bolar, says Mylan's McKnight, has probably been the most successful of the four in playing the market-niche strategy. "We tend to get into the big name brands that are widely prescribed, like antibiotics—14 days and, boom, the patient is off the stuff," he says. But Bolar "looks more to drugs that you take for the rest of your life." That may explain why Bolar's profit margins are highest among the four.

Bolar's caution has cost it something in terms of growth, but Zenith and Par Pharmaceutical evidently feel there is something to be learned from its example. Both have been telling shareholders about the need for a more balanced mix of big new products and less volatile specialties.

Congress could be of some help. Long at swords' points over patent rights, the generic and trade-name producers—with Representative Henry Waxman (D–Calif.) as referee—seem to have worked out a piece of compromise legislation with something for everyone. The bill, in effect, would give the trade-name drug producers longer effective patent protection (up to 14 years) by crediting them with the time it takes to maneuver a new drug through the FDA. At the same time, the generic producers would be given quicker access once the patent comes off.

There are some recalcitrants among the brand-name producers, and what Congress may or may not do in an election year is hard to predict. But legislation or no, the dynamics of the business will keep Roy McKnight, Jim Leonard and company thwacking away at one another as lustily as ever. ■

An oasis for the business at hand.

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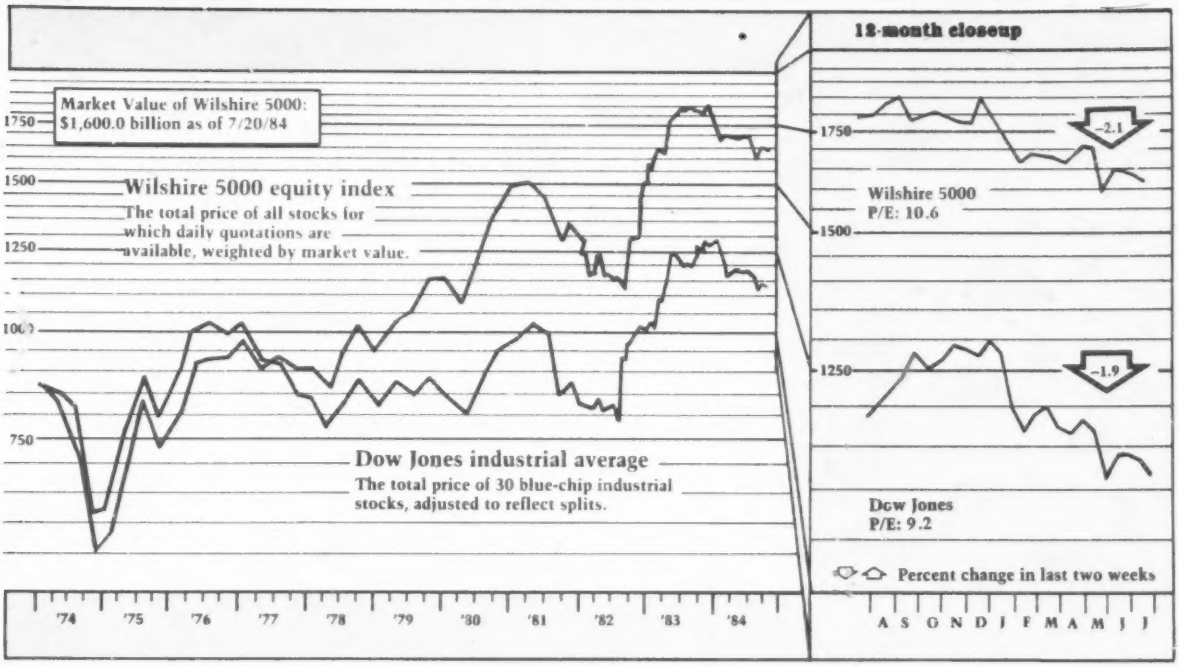
The Forbes/Wilshire 5000 Review



The calm before the storm? The most recent two weeks were decidedly gloomy on Wall Street. Instead of preparing for a rally, most investors seem to be stowing their cash to protect against a summer squall. Both the Wilshire 5000 and the Dow industrials accelerated their downward spirals, and the Wilshire lost $20 billion in market value.

Over the four-week period, the news was even worse: Every major index was down, and the declines were big. The poorest performers were the Amex, off by 5.4%, and the NASDAQ, off 4.9%. In this atmosphere, not surprisingly, the Dow and the Forbes 500 held the best course: They were off 2.6% and 2.9%, respectively—the only indexes to beat the overall market.

The investor yardsticks tell a similar story of caution. In balmier times, share buyers load up on high-risk issues with high price/earnings multiples and low share prices. But that is not the case these days. Over the most recent four-week period there was a clear preference for safe harbors. Buyers, for example, snapped up low-volatility stocks with low multiples and low five-year growth rates. These are just the kinds of portfolio additions that travel well in foul weather.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	–3.5	–2.9	–2.6	–3.2	–5.4	–4.9
in last 52 weeks	–15.1	–10.9	–10.5	–11.8	–22.8	–28.5

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	–4.4	–4.7	–7.5	–0.9	–6.0	–1.7	–1.2	–5.1	–7.2	–0.5	–2.3	–6.7
in last 52 weeks	–14.5	–21.7	–28.7	–1.8	–31.7	–13.1	–2.8	–21.1	–26.4	–1.0	–10.0	–26.3

[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

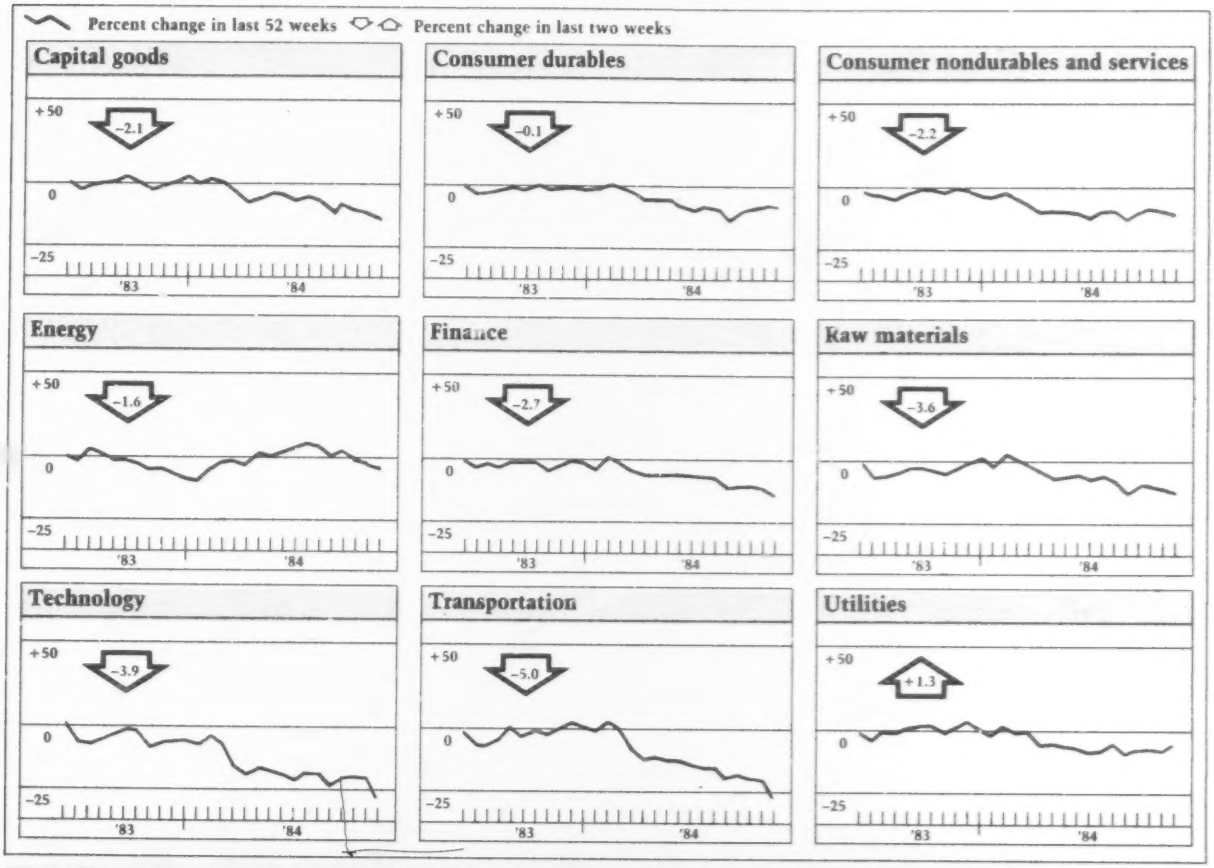
Note: All data for periods ending 7/20/84. Prepared by Wilshire Associates, Santa Monica, Calif.

Shelley Dell

Where The Action Is

Safe harbors in high yields. Of the nine industry groups, only utilities managed to post a gain over the past two weeks. They were up 1.3%. Investors like the security of today's high yields and are betting on a further rise in share prices if interest rates fall.

Transportation stocks, meanwhile, were down 5%, which makes them the poorest performers over the last two-week period. Over the same stretch, technology stocks and raw materials were off sharply, too, with declines of 3.9% and 3.6%, respectively. This gives technology stocks the largest 52-week decline, 25.8%, while transportation stocks follow closely behind with a 25.3% slide.



What The Analysts Think

Visions of dark clouds. During the last two weeks, securities analysts cut their estimates for eight of the nine Wilshire sectors. Only technology companies showed a gain—a slim 0.71% increase. By contrast, raw materials producers led the downward revisions. Analysts reduced projected earnings figures for these firms by over 6%.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$2.88	10.9
1984 estimates	3.99	8.1
1985 estimates	4.77	6.5

Rank based on change in estimate	Sector	Estimated 1984 EPS	% change in 1984 estimate in 2 weeks	in 4 weeks
1	Technology	$2.07	0.71%	0.12%
2	Utilities	3.52	-0.03	0.35
3	Consumer non-durables	2.66	-0.69	-1.69
4	Consumer durables	3.30	-0.79	-0.74
5	Energy	2.73	-2.09	-2.45
6	Finance	3.60	-3.13	-3.31
7	Transportation	2.68	-3.15	-2.21
8	Capital goods	2.42	-4.11	-5.67
9	Raw materials	3.32	-6.24	-6.89

Earnings projections are equal weighted consensus estimates from over 1,800 security analysts. Forecasts for the 9 Wilshire sectors are limited to firms with 3 or more estimates, with a mean estimate greater than $0.50. Data are compiled and updated weekly by Zacks Investment Research, a Chicago-based quantitative consulting firm.

Note: All data for periods ending 7/20/84. Prepared by Wilshire Associates, Santa Monica, Calif., Zacks Investment Research, Inc., Chicago, Ill.

Shelley Dell

Information about corporate pension plans isn't easy to find. But these days the search can be very rewarding.

Hidden assets

By Leslie Pittel

IF YOU ARE A TYPICAL INVESTOR, you pay a lot of attention to earnings. You may even look at debt-to-equity ratios and book value. But if you think at all about pension plans, you worry. Years ago there were horror stories about giant unfunded liabilities. Ever since, companies have tussled with accountants in an effort to keep this bad news off the balance sheet.

Cheer up. Today, thanks to the combination of the stock market recovery and high interest rates, pension funds are more likely to be untapped assets than looming liabilities. "Everybody looks at earnings, but pension fund assets grew so much in 1983 that they almost matched retained earnings for the year," says Norman Weinger of Oppenheimer & Co., who recently studied the pension plans of 400 big corporations. His conclusion was that net overfunding was nearly $42 billion at the end of 1983, roughly twice the 1982 level.

How can a pension plan represent a hidden asset? It's simple. Corporations make annual contributions to retirement funds based on actuarial assumptions about future payments. But suppose investment income is higher than anticipated, or payouts are lower. Then a healthy surplus can build up.

This overfunding allows considerable flexibility with future contributions, which can improve cash flow. If a firm with overfunding loses money in one year, it has the option of withholding pension contributions. It is

Pension plans with excess cash

These 20 companies are ranked in terms of excess pension money relative to market capitalization. That hidden asset, which can boost earnings, could attract the interest of investors.

Company	Over-funding (mil)	Over-funding/ market cap	Over-funding/ com equity	Interest coverage	Cash flow/ debt	Recent price	Latest 12-month EPS	P/E	Yield
US Steel	$1,524.0	53.7%	33.4%	NA	0.3	22⅝	$–9.41	NM	4.4%
Martin Marietta	444.2	39.2	60.8	3.3	0.9	34½	4.47	7.7	3.9
Interlake	105.8	37.1	32.3	4.1	0.3	47⅜	5.02	9.4	5.5
JP Stevens	108.5	30.5	19.3	1.8	0.2	20	1.51	13.2	6.0
McDonnell Douglas	635.2	30.4	30.7	44.5	4.6	56⅛	7.09	7.9	2.9
Mohasco	31.8	27.4	15.6	3.7	0.5	16¼	2.31	7.3	1.9
Grumman	184.9	27.2	40.8	14.9	4.8	27⅛	3.87	7.0	3.3
Firestone Tire & Rubber	222.0	27.2	17.2	3.6	0.6	16½	1.83	9.0	4.8
United Technologies	903.3	24.4	27.8	5.1	0.9	33¼	4.12	8.1	4.2
El du Pont de Nemours	2,552.0	22.5	22.7	6.9	0.9	44⅞	5.40	8.3	6.2
AMF	89.7	22.1	20.7	0.8	0.5	15¼	–0.10	NM	3.2
Inland Steel	124.4	21.6	11.0	NA	0.2	22¾	–1.54	NM	2.2
Hercules	328.2	20.7	25.5	6.8	0.9	28	3.45	8.1	5.1
Cummins Engine	128.2	20.2	25.6	0.9	0.4	66⅜	5.21	12.7	3.0
Polaroid	166.2	20.2	18.0	4.8	0.4	27	1.75	15.4	3.7
Union Carbide	719.0	18.9	14.6	1.3	0.6	50⅝	3.93	12.9	6.7
Brown & Sharpe Manufacturing	9.2	18.9	14.3	0.8	0.0	14½	–0.70	NM	1.4
Crane	67.0	18.7	26.5	6.9	NA	35½	–1.73	NM	4.5
Joy Manufacturing	82.8	18.3	16.4	5.0	1.1	21⅞	2.18	10.0	6.4
Safeway Stores	227.1	17.6	16.3	3.2	0.4	25⅜	3.17	8.0	5.9

NA: Not applicable/not available. NM: Not meaningful.

Sources: Oppenheimer & Co.; Disclosure II Data on diskette via Micro/Scan from ISYS Corp.; FORBES

Statistical Spotlight

even possible to dip into excess fund money for some badly needed cash.

From a shareholder's perspective, there is an even more appealing alternative. Why not shut down an overfunded plan and put the excess money into the corporate treasury? It is possible to continue employee benefits, often by simultaneously launching a replacement plan. But the cash benefits are immediate: Since January 1980 some 294 big companies, including Occidental Petroleum and Great Atlantic & Pacific Tea, have received government approval to terminate pension plans, recapturing $2.8 billion in excess cash (FORBES, *May 7*).

Checking the health of a company's plan isn't easy. Pension numbers don't show up on balance sheets, although accountants are preparing a rule that may require that. Meanwhile, the information is buried in footnotes.

Sadly, one important item—the interest rate assumption on which funding is based—sometimes isn't available. From an investor's point of view, the lower this figure, the better. A company that based its pension contributions over the past decade on, say, a 5% interest rate is likely to have a plan bulging with excess cash.

Smart guys know all this. Weinger and his partner Michael Metz, for example, made some surprising discoveries: Firms with a high level of overfunding relative to market capitalization or stockholders' equity attract a surprising number of takeover bids, 13D filings and corporate stock buybacks. "If you're paying $575 million for a company and the overfunding in the pension plan is $350 million, you're really paying very little for the firm," argues Metz.

What about underfunding? Today it is much less prevalent than most people assume. Of the 400 firms Oppenheimer studied for which information was available, only 68 corporations had underfunded plans.

The accompanying tables, which present the top 20 firms ranked by the ratio of overfunding and underfunding to market value, are based on the Oppenheimer study. The funding levels were calculated by subtracting the present value of future benefits from today's plan assets. We also show interest coverage, which is the ratio of pretax income to interest expense. We have included a cash-flow-to-debt ratio, too, which indicates how well the firm is handling its other long-term obligations.

Illustrations by Patrick McDonnell

The overfunding table contains some surprises, such as U.S. Steel. Although its 54% overfunding-to-market-capitalization ratio is impressive, an earnings deficit along with weak interest coverage and cash-flow-to-debt ratios generate much less enthusiasm. But look at Martin Marietta. Overfunding is 39% of market capitalization and 61% of shareholders' equity. With interest coverage of 3.3 and a cash-flow-to-debt ratio of 0.9, the company seems strong.

As expected, our undervalued table contains mostly cyclicals. When times were tough, these companies got behind on their pension contributions. Some, such as Chrysler, are making money again. And catching up on pension payments will take a chunk out of future earnings. ■

Pension plans that need a boost

These 20 companies are ranked in terms of pension underfunding relative to market value. Eventually, they will need to catch up—with cash that will have to come out of earnings.

Company	Underfunding (mil)	Underfunding/ market cap	Underfunding/ com equity	Interest coverage	Cash flow/ debt	Recent price	Latest 12-month EPS	P/E	Yield
International Harvester	$827.0	313.5%	NM	NA	NA	6¾	$–7.24	NM	—
Wheeling-Pittsburgh Steel	210.1	242.6	73.6%	NA	NA	20½	–11.08	NM	—
Allis-Chalmers	252.5	154.9	109.4	NA	NA	10⅜	–7.42	NM	—
Uniroyal	476.0	130.0	77.9	2.7	0.5	11¾	1.93	6.1	1.0%
American Motors	370.1	102.9	275.6	NA	NA	4⅜	–0.90	NM	—
Bethlehem Steel	625.0	63.2	57.4	NA	0.1	17½	–5.23	NM	3.4
Chrysler	1,405.4	46.4	123.0	9.6	1.1	26	8.47	3.1	3.1
Armco	414.9	38.0	33.6	NA	NA	13⅞	–7.32	NM	2.9
Champion Spark Plug	103.0	29.8	28.7	7.4	4.2	8½	1.00	8.5	4.7
Kaiser Aluminum & Chemical	174.4	26.8	14.3	NA	0.3	15	–0.75	NM	4.0
White Consolidated Industries	102.6	24.2	17.3	4.1	0.5	26	3.26	8.0	5.8
Genesco	17.8	17.6	71.5	1.0	0.0	7⅝	0.88	8.7	—
General Motors	3,271.4	16.2	16.0	4.7	3.4	67⅛	14.87	4.5	7.4
American Standard	96.0	13.1	16.0	4.3	0.4	25⅛	2.40	10.5	6.4
Acme-Cleveland	10.6	12.9	12.5	NA	NA	15¼	–5.53	NM	2.6
BF Goodrich	75.7	11.1	6.8	1.3	0.2	27	2.75	9.8	5.8
Ingersoll-Rand	85.0	10.5	8.3	NA	NA	36½	0.55	NM	7.1
Libbey-Owens-Ford	49.9	9.7	11.0	5.4	0.5	46	4.54	10.1	2.6
Ford Motor	630.3	9.0	8.4	4.8	1.9	37¼	14.02	2.7	4.3
Crown Cork & Seal	40.5	8.6	7.5	11.2	9.5	38¾	4.33	8.9	—

NA: Not applicable/not available. NM: Not meaningful.

Sources: Oppenheimer & Co.; Disclosure II Data on diskette via Micro/Scan from ISYS Corp.; FORBES

The West Coast's big winners haven't been the glamour issues. For the most part, they have been unknown and un-tech.

WHY GLAMOUR DOESN'T PAY

By Kenneth L. Fisher

When most folks think about buying West Coast stocks they think of Silicon Valley. I have news for them. Most of California's recent big winners bear such non-high-tech names as Marathon Office Supply, Chesapeake Industries and R.V. Weatherford.

The table lists the ten top-performing California stocks of 1983 (with sales over $10 million). Only three are high tech, and even they aren't exactly household names. With price increases ranging from 213% to 1,100%, these stellar performers defied most conventional means of identification.

What did these star performers have in common? Not low price/earnings ratios. As a matter of fact, most of them had no earnings at all. The list doesn't show it, but only one paid a dividend. Likewise, you couldn't identify this group based on a percentage of book value—it just wouldn't work. In short, you couldn't have picked them on any of the more popular measures of value.

What they did have in common is what I call low price/sales ratios (PSR). That is, they were stocks where the total market capitalization was a small proportion of annual revenues. (To figure the PSR simply multiply the stock price by the number of shares outstanding and then express the resulting sum as a percentage of revenues. Thus a company whose market capitalization was $100 million and revenues were $200 million would have a PSR of 0.5.) It's just like a P/E ratio but uses total sales instead of earnings. Note in the table that of last year's big California winners all but one started the year with a PSR of 1.0 or less—usually much less.

Rank	Company	Price 1/1/83	1983 gain	Sales* (millions)	1/1/83 PSR	1/1/83 P/E ratio
1	**Marathon Office**	$0.50	1,100%	$21.5	0.04	d
2	**Chesapeake Industries**	0.38	833	15.4	0.06	d
3	**RV Weatherford**	1.29	636	43.6	0.05	d
4	**Marshall Industries**	5.94	435	118.0	0.18	d
5	**First Lincoln Financial**	4.12	367	94.8	0.10	d
6	**Wherehouse Entertainment**	3.63	348	83.4	0.17	16
7	**Anthem Electronics**	8.59	255	38.7	0.79	23
8	**International Rectifier**	5.19	247	119.2	0.25	d
9	**SYM-TEK Systems**	5.00	215	12.4	0.48	9
10	**Servamatic Systems**	1.06	213	18.5	1.48	d

PSR: Price/sales ratio. *Fiscal 1982. d: deficit. *Source:* California Business.

The uncanny degree to which successful intermediate- to long-term performers come from the ranks of low PSR stocks bothers some investors because it seems to have nothing to do with earnings, which everyone has been trained to accept as the driving force behind a stock's price.

As David Dreman has repeatedly pointed out, the fact that a company is poorly regarded now doesn't mean it will be later. That's why unpopular stocks frequently outperform popular stocks, and that's why low PSRs work so well: They are an almost perfect measure of unpopularity, whereas low P/E multiples aren't always so (an unpopular stock with temporarily low earnings usually sells at a high price/earnings ratio). Simply put, unpopular stocks of good companies perform well.

Whether in California or in Michigan, whether among big companies or small, whether among high tech, low tech or no tech, big winners tend to come from among the ranks of low-price/sales-ratio stocks. My research, contradicting what most people would expect, shows that this has been true for generations—all the way back to the 1920s and 1930s.

What is a high PSR and what is not? Looking at California's 1983 winners, six out of the ten sold at prices valuing whole companies for less than 20% of their annual revenues. Only two sold for more than 75% of sales.

By the same token, the top five performing stocks of the Dow in 1983 all had PSRs below 0.20. In 1983 the low PSR quartile of the DJI increased 56.1%, vs. 28.7% for the low-P/E quartile, and 20.3% for the DJI as a whole.

Of course, low PSRs alone won't guarantee success. You still need to sort quality from garbage.

Listed below are a few low-PSR stocks that I feel belong in the quality category: *Brockway Inc.* (16), *Robbins & Myers* (11, o-t-c) and *Tesoro Petroleum* (15). They are unpopular and in largely mundane and out-of-favor industries. Yet each is quite strong relative to competition. They all sell for less than 20% of annual revenues. In time Wall Street is apt to view them as "not so terrible," offering patient investors a lot better chance than the popular high-tech stocks in my backyard. ■

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